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The Indiana property tax has been the subject of numerous articles in these pages over the years. For decades Indiana relied on the property tax as its dominant means of raising revenues for governmental functions. Despite the introduction of a state income tax and a state sales tax, the property tax remained a significant issue. In 1973 the legislature enacted a new tax package that has brought new discussion and debate into the public arena.

The three articles in this issue continue our efforts to explain the property tax program in Indiana and to offer some review of the ideas underlying the program's changes over time. When the 1979 General Assembly reexamined the program the nation was attempting to come to terms with Proposition 13 as enacted in California; Edward Bowman offers a perspective on that controversial issue. Reassessment of property was also on the minds of the people's representatives; John Koppin explores the alternatives the legislators faced. Finally, the 1979 General Assembly had to resolve issues deferred by earlier legislation; Scott Lloyd details the legislature's "third generation" controls package.

Together these three articles offer an important update on property taxation in Indiana.

– MJM

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Proposition 13: The Indiana Response and the Challenge to Business

EDWARD J. BOWMAN

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Both proponents and opponents marked the first anniversary of the adoption of California's Proposition 13 with mixed emotions. Many of those who rejoiced on June 6, 1978, when this revolutionary constitutional change was adopted, now feel that its results have fallen far below their expectations. On the other hand, experience to date has demonstrated that the opponents who had predicted immediate disaster were wrong.

When it took effect on July 1, 1978, California's constitutional amendment contained four key provisions:

1. The amount of the property tax that can be collected is limited to 1% of 1976 market value;
2. The assessed value of property cannot be increased by more than 2% each year unless it is sold, at which time it can be reassessed according to its market value;
3. No other local tax can be increased or new tax imposed without approval by two-thirds of the qualified voters;
4. No new state taxes can be imposed unless approved by at least a two-thirds vote of both houses of the California legislature.

*Mr. Bowman serves as tax counsel for the Indiana Manufacturers Association and is Executive Vice President, Indiana Broadcasters Association.

The emotional oratory and rhetoric about Proposition 13 made it difficult to ascertain the actual effects of the proposition. Even the extensive study of Proposition 13 commissioned by the California legislature reflects negative biases on the part of the authors. But an in-depth (and extremely valuable) report of the California Department of Finance provides comprehensive statistical and analytical information for evaluating the impact of Proposition 13 on governmental services in California.

California's experience is significant for anyone who is concerned about, or involved with state and local tax matters. It holds deep interest for Indiana because of the comprehensive property tax reforms adopted here in 1973. In addition, the California tax revolt has far-reaching implications for the Indiana business community. Implementation of Proposition 13 has disclosed new potential for attacks on business, and it has revealed an appalling lack of popular understanding about the taxation of business.

In this context, an analysis of Proposition 13 highlights three fundamental questions. First, how has the proposition affected California to date? Second, how have the nation and Indiana responded to the proposition? Third, how should Indiana's business community approach the tax limitation issue in the future?

I. HOW HAS PROPOSITION 13 AFFECTED CALIFORNIA TO DATE?

Californians have experienced substantial property tax relief. Property taxes were slashed by approximately 57%, and the total statewide reduction was approximately $6.5 billion. Records reveal that reductions for some homeowners in major urban areas exceeded two-thirds of the previous year's tax bill.

The initial effect of Proposition 13 on local governmental services generally has been considered minimal. A substantial portion of the decreased property tax revenue was replaced by state aid. Within less than three weeks after the adoption of Proposition 13, California's lawmakers enacted legislation allocating to local units more than $4 billion in state surplus funds. These distributions took the form of block grants, without any program restrictions or mandates. Elementary and secondary education received the largest portion: $2.1 billion. The fifty-eight California counties received the next largest portion: $1.5 billion. Assistance to the counties also involved a transfer of governmental functions: the state of California assumed primary responsibility for health and welfare programs. The remaining funds, $672 million, were allocated between California's cities, special districts and community colleges.

In addition to this massive infusion of state funds, California's cities and counties were able to draw upon some substantial surpluses of their own. The California Department of Finance study disclosed that counties had reserves in excess of half a billion dollars, while total city surpluses exceeded three quarters of a billion dollars. Substantial increases in sales tax collections, resulting from inflation, also benefited counties and cities.

Further, California counties imposed new and increased fees and service charges totaling some $22 million, and cities increased their fees by more than $102 million. Some local units of government also began to use federal revenue sharing funds for operating costs rather than restricting these monies to capital construction.

Local Budgets Increased– Cutbacks and Layoffs Occurred

Statewide, the net result in the year following Proposition 13 was that California counties increased their budgets by almost 10%, and the 372 cities reporting to the Department of Finance increased their budgets by approximately 4%. These increases, however, did not keep up with the demands for expanded governmental services nor the inflation-induced increased costs of providing these services. Accordingly, there was a curtailment of local governmental services in California.

As a condition of receiving state distributions, the California legislature mandated a freeze on salaries. In addition, most local governments instituted a freeze on hiring. These two elements resulted in a substantial reduction in the number of public employees. The California State Employment Development Department estimated that Proposition 13 was directly responsible for the loss of almost 17,000 public-sector jobs through layoffs. The total reduction in public employees exceeded 100,000 jobs because of these layoffs plus resignations, retirements, and the freeze on hiring new employees.

The California economy has been so strong, however, that the private sector has absorbed the public employee jobs that were lost because of Proposition 13. During 1978, the increase in private employment in California took its greatest jump since the Korean War.

Most of the modifications and cutbacks in local governmental services have been apparent to the average Californian. The hours of public libraries have been curtailed; some libraries have been closed. Summer school classes generally have been discontinued; admission to those

adult education classes still operating is no longer free. Admission charges have been instituted or increased for many activities in California's extensive Park and Recreation System. Because of the California Legislature's mandate to maintain police and fire services at current levels, public safety was not adversely affected by the reduction in property tax revenue available to local units.

City officials interviewed by the California Department of Finance were dismayed by low morale among city employees. On the other hand, they reported greater staff unity, better cooperation with other units of government and expanded opportunities for services through contractual arrangements.

Fiscal Experts Disagree on Future of Proposition 13

The key to the future of local government in California will be the ability of California's state government to continue to provide sufficient replacement funds to recoup funds lost because of reduction in the property tax brought about by Proposition 13. Some economists optimistically forecast burgeoning state revenues; others predict that the revenue increase will not provide adequate funds for the state to meet its own financial obligations. Optimists contend that the stimulus to the private sector provided by Proposition 13 will result in sufficient revenue growth to allow the state to continue to distribute massive sums to local units. Pessimists maintain that the state cannot continue to bail out local units because, under Proposition 13, it has assumed additional responsibility for welfare and medicaid programs. Between these two extremes are those who believe that sufficient state funds will continue to be available, if local units of government implement structural changes for greater efficiency and exercise their existing authority for raising additional revenue through fees and service charges.

II. HOW HAVE THE NATION AND INDIANA RESPONDED TO PROPOSITION 13?

In California, and throughout the nation, the debate about controlling government expenditures will continue. On one side are those who feel that new and more effective constitutional and statutory limitations should be adopted. Others argue for providing greater governmental accountability through budgetary reform and full disclosure of governmental spending. These arguments lead to a second fundamental question of this analysis, How have the nation and Indiana responded to Proposition 13?

After Proposition 13 was adopted overwhelmingly by a two-to-one vote, constitutional amendments for limitation of taxes and/or spending were proposed in many other states. Several of these proposals offered approaches identical to that of Proposition 13. Others proposed to limit expenditures to a given percentage of a state's total personal income. Still others offered provisions requiring more than a majority vote for the imposition of new or increased taxes. After the general election of November 7, 1978, voters in eleven states had approved constitutional amendments calling for some type of tax and spending limitations. Voters in four states had rejected amendments.

Indiana was not one of the states offering such an option. Instead, its leaders pointed to the property tax reduction previously achieved by the major tax changes adopted in 1973. This response was epitomized by the industrial development advertising campaign, dubbed the "Dragon Promotion," of Indiana's Department of Commerce. The nationally circulated ads asserted that Indiana had already conquered the tax dragon. They carried the caption, "Mr. Jarvis and Mr. Gann, We Slew the Dragon Before You Began."

Increased Property Tax Relief Continues for Hoosiers

The most recent statistics available from the State Board of Tax Commissioners (see chart on pages 6 and 7) show that in 1979 over $300 million in property tax relief monies will be available for distribution because of the 20% property tax replacement credit.

In addition, in the thirty-seven counties using the local income tax, collections approaching $54 million will serve as additional replacement revenues for property tax dollars. Because of this massive property tax relief infusion, plus the controls limiting spending increases, the average **adjusted** statewide property tax rate for 1979 computes to **$7.12** per $100 of assessed valuation.

These statistics, reflecting Indiana's sixth year of experience with the 1973 program, dramatize the face that Hoosier taxpayers are now enjoying close to a 50% reduction in the projected property tax burden. If it were not for this program, the **estimated** 1979 average statewide property tax rate would be **$13.33.**

In 1979, the **actual** statewide property tax rate of $9.35 showed virtually no change from the previous year ($9.34). This rate directly reflects the impact of property tax controls together with the increased state share for funding elementary and secondary education. Significantly, the increases in both statewide assessed valuation and property tax levy were approximately 5%. After the state replacement of the local property tax, the highest average **adjusted**. County tax rate among Indiana's ninety-two counties was $12.50 in Lake County and the lowest was $3.09 in Randolph County.

Indiana's Comparative Tax Position Is Most Favorable

Indiana's property tax relief, together with a generally conservative approach by governmental officials to public expenditures, has placed the state in a comparatively favorable position. A study by the national Advisory Commission on Intergovernmental Relations showed that Indiana's state and local tax burden as a percent of personal income was substantially below the national average in 1976 (Indiana = 10.4%; national = 12.5%). In addition, a Tax Foundation Report documents that only one other state in the nation, Connecticut, spent less on state and local government per $1,000 of personal income than Indiana.

The success of the 1973 property tax relief program and the favorable Indiana tax climate were substantial factors in shaping the Indiana response to the national interest in new tax and spending limitations. When the Indiana General Assembly convened in January 1979, the legislators' primary concern was to maintain the existing tax relief and spending control mechanisms. The legislature enacted permanent property tax controls which provide that the tax levy can only increase to the same extent as the tax base (assessed valuation). To accommodate for unusual situations, the new control law also sets both upper and lower limits on the potential amount of property tax increase. In addition, the General Assembly broadened the powers of the state level control boards and made the county local option income tax more attractive.

To compensate for potential property tax increases that might result from reassessment, the lawmakers raised the property tax replacement credit for homeowners from 20% to 30%. Under this law the replacement credit will be reduced 2% each year for five years until it returns to the original 20%.

Some tax measures adopted by the Indiana legislators could, in part, be identified with the national clamor for tax relief launched by Proposition 13. A prime example was the 15% individual income tax credit provided for 1980 to be followed by a permanent reduction in the

Property Tax Statistics and Related Information By County--1979

County	Assessed Valuation 1978	Assessed Valuation 1979	Percent Increase (1979 over 1978)	Tax Levy 1978	Tax Levy 1979	Percent Increase (1979 over 1978)	Average County Tax Rate, 1978	Average County Tax Rate, 1979	Property Tax Relief, 1979	Adjusted Levy, 1979	Average Adjusted County Tax Rate, 1979	Percent Change (1979 over 1978)	Average Adjusted County Tax Rate, 1978
Adams	92.0	98.2	6.8	7.8	8.2	5.4	8.47	8.36	1.6	6.6	6.69	-1.3	6.78
Allen	901.0	939.0	4.2	81.7	84.4	3.4	9.07	9.00	16.9	67.6	7.20	-0.8	7.26
Bartholomew	219.4	231.2	5.4	18.1	19.1	5.5	8.25	8.26	7.6	11.5	4.99	0.4	4.97
Benton	55.0	57.6	4.7	3.1	3.2	1.9	5.63	5.48	1.3	1.8	3.19	-4.5	3.34
Blackford	37.5	39.0	3.9	3.0	3.0	1.2	7.88	7.68	1.0	2.0	5.16	-3.2	5.33
Boone	95.8	102.9	7.4	7.9	8.4	5.8	8.23	8.12	1.7	6.7	6.49	-1.5	6.59
Brown	23.3	25.0	7.1	1.5	1.7	10.3	6.42	6.61	0.6	1.1	4.30	3.6	4.15
Carroll	67.5	69.6	3.0	4.2	4.3	2.4	6.17	6.13	1.8	2.5	3.58	0.9	3.55
Cass	126.8	133.6	5.4	8.0	8.9	11.2	6.29	6.63	3.9	4.9	3.68	5.4	3.49
Clark	191.0	202.4	6.0	19.3	20.3	5.2	10.13	10.05	4.1	16.3	8.04	-0.7	8.10
Clay	49.8	57.1	14.7	3.4	3.1	-7.0	6.74	5.47	0.6	2.5	4.37	-20.7	5.51
Clinton	93.6	98.6	5.3	6.1	6.4	5.4	6.52	6.52	2.8	3.6	3.63	5.2	3.45
Crawford	15.5	16.9	8.6	1.6	1.6	2.9	10.08	9.55	0.3	1.3	7.64	-5.2	8.06
Daviess	47.8	50.8	6.2	4.0	4.2	6.0	8.27	8.26	0.8	3.4	6.60	-0.2	6.61
Dearborn	98.5	102.0	3.7	7.6	8.4	10.0	7.74	8.22	1.7	6.7	6.56	6.2	6.18
Decatur	63.7	67.5	6.0	4.4	4.5	2.5	6.91	6.68	2.0	2.5	3.67	-2.7	3.77
DeKalb	86.5	92.5	6.9	5.8	6.3	8.6	6.68	6.78	2.9	3.3	3.60	5.6	3.41
Delaware	278.7	284.9	2.2	30.3	33.0	9.0	10.87	11.60	6.6	26.4	9.28	6.7	8.70
Dubois	94.3	103.0	9.2	7.5	8.0	6.9	7.94	7.77	1.6	6.4	6.21	-2.2	6.35
Elkhart	455.2	484.5	6.4	36.5	37.8	3.6	8.02	7.81	15.5	22.3	4.60	-4.8	4.83
Fayette	71.8	75.3	4.8	6.2	6.6	5.8	8.64	8.72	1.3	5.2	6.97	0.9	6.91
Floyd	126.1	131.0	3.9	11.1	11.8	6.9	8.79	9.04	2.4	9.5	7.23	2.8	7.03
Fountain	47.9	50.2	4.7	3.8	4.3	13.6	7.95	8.63	1.4	2.9	5.84	10.4	5.29
Franklin	31.6	34.0	7.7	2.6	2.7	3.8	8.36	8.06	0.5	2.2	6.44	-3.7	6.69
Fulton	62.7	67.7	8.1	4.2	4.4	6.0	6.70	6.57	0.9	3.6	5.25	-2.1	5.36
Gibson	106.2	134.3	26.5	7.1	8.3	16.7	6.67	6.15	1.7	6.6	4.92	-7.9	5.34
Grant	214.0	219.4	2.5	19.5	20.5	5.2	9.11	9.35	4.1	16.4	7.48	2.6	7.29
Greene	53.8	58.2	8.1	4.1	4.2	4.0	7.59	7.30	0.9	3.4	5.84	-3.8	6.07
Hamilton	232.9	251.3	7.9	19.4	20.1	3.7	8.34	8.02	4.0	16.1	6.41	-3.9	6.67
Hancock	102.0	109.3	7.0	8.1	8.7	7.4	7.93	7.96	4.1	4.6	4.19	2.0	4.11
Harrison	41.4	44.8	8.2	2.9	3.1	7.0	6.97	6.90	0.6	2.5	5.52	-1.1	5.58
Hendricks	149.4	160.9	7.7	11.8	12.3	4.5	7.91	7.67	4.3	8.0	5.00	-3.1	5.16
Henry	128.0	133.6	4.3	11.9	12.6	6.6	9.26	9.46	2.5	10.1	7.57	2.2	7.41
Howard	293.5	310.2	5.7	24.3	25.4	4.7	8.28	8.20	5.1	20.4	6.56	-1.1	6.63
Huntington	97.1	102.8	5.9	7.1	7.2	1.9	7.27	7.00	3.4	3.8	3.68	-4.4	3.85
Jackson	87.3	90.3	3.4	7.3	7.5	3.1	8.33	8.31	1.5	6.0	6.64	-0.3	6.66
Jasper	98.4	107.3	9.1	5.4	6.6	21.5	5.54	6.17	2.6	4.0	3.74	15.4	3.24
Jay	62.8	66.8	6.5	4.7	4.7	2.1	7.41	7.11	2.0	2.7	4.06	-9.6	4.49
Jefferson	83.8	88.7	5.7	6.5	7.3	11.5	7.80	8.23	1.5	5.8	6.58	5.3	6.25
Jennings	37.4	39.8	6.3	3.0	3.1	5.8	7.89	7.85	0.6	2.5	6.28	-0.6	6.32
Johnson	157.6	167.3	6.2	11.3	12.4	9.3	7.18	7.39	6.6	5.8	3.47	2.1	3.40
Knox	91.3	98.2	7.5	8.0	8.3	3.4	8.81	8.47	1.7	6.6	6.77	-4.0	7.05
Kosciusko	187.1	202.1	8.0	11.1	13.0	18.0	5.93	6.48	2.9	10.1	5.02	25.8	3.99
LaGrange	81.4	88.0	8.1	5.3	5.9	10.7	6.50	6.65	1.2	4.7	5.32	2.3	5.20
Lake	1,416.5	1,439.5	1.6	217.5	224.9	3.4	15.36	15.62	45.0	179.9	12.50	2.0	12.26

La Porte	324.5	341.0	5.1	33.8	35.4	4.6	10.42	10.37	7.1	28.3	8.29	-0.6	8.34
Lawrence	82.8	88.0	6.2	5.8	6.2	6.1	7.05	7.04	3.0	3.2	3.61	0.8	3.58
Madison	326.6	339.6	4.0	31.8	33.3	4.8	9.74	9.82	6.7	26.7	7.85	0.8	7.79
Marion	2,372.4	2,464.7	3.9	258.4	273.6	5.9	10.89	11.10	54.7	218.9	8.88	1.8	8.72
Marshall	125.3	134.9	7.7	8.4	8.8	5.2	6.69	6.54	3.7	5.1	3.79	-2.6	3.89
Martin	20.3	21.5	5.9	1.3	1.4	9.8	6.38	6.62	0.3	1.1	5.28	3.5	5.10
Miami	82.3	87.9	6.9	6.8	7.1	4.1	8.29	8.08	1.5	5.6	6.42	-3.2	6.63
Monroe	203.1	210.0	3.4	17.4	18.1	4.0	8.59	8.64	3.6	14.5	6.91	0.6	6.87
Montgomery	125.4	130.9	4.5	8.7	9.2	5.2	6.94	6.99	1.8	7.3	5.59	0.7	5.55
Morgan	96.1	100.3	4.4	7.9	7.8	-1.4	8.19	7.73	4.0	3.8	3.76	-12.2	4.28
Newton	50.5	55.2	9.3	3.7	3.9	5.0	7.33	7.04	1.4	2.5	4.47	-4.7	4.69
Noble	88.8	93.9	5.8	5.9	5.9	0.0	6.69	6.27	2.9	3.0	3.14	-12.3	3.58
Ohio	7.3	7.6	4.0	.6	.6	8.5	7.55	7.88	0.3	0.3	4.36	3.1	4.23
Orange	38.3	40.6	6.0	2.5	2.9	15.6	6.43	7.01	0.6	2.3	5.61	8.9	5.15
Owen	26.3	27.4	3.9	2.2	2.3	4.5	8.34	8.38	0.5	1.8	6.70	0.5	6.67
Parke	37.4	39.1	4.7	3.1	3.2	2.7	8.26	8.10	0.6	2.5	6.48	-2.0	6.61
Perry	34.7	37.1	7.0	2.5	2.6	5.3	7.07	6.96	0.5	2.1	5.57	-1.6	5.66
Pike	89.1	97.3	9.2	4.6	4.5	-1.4	5.17	4.67	0.9	3.6	3.73	-9.7	4.13
Porter	469.5	487.9	3.9	35.8	38.7	8.0	7.63	7.93	7.7	31.0	6.35	3.9	6.11
Posey	107.5	111.7	4.0	6.2	6.6	6.9	5.79	5.95	1.3	5.3	4.75	2.6	4.63
Pulaski	53.8	58.1	7.8	4.0	3.9	-1.9	7.40	6.73	1.5	2.5	4.23	-13.3	4.88
Putnam	70.7	76.1	7.6	5.4	5.7	6.9	7.60	7.55	1.2	4.6	6.03	-0.8	6.08
Randolph	86.3	88.8	2.9	5.1	5.2	1.7	5.91	5.84	2.4	2.7	3.09	-0.6	3.11
Ripley	53.0	56.6	6.8	3.7	3.7	-1.5	7.04	6.49	1.3	2.4	4.16	-10.5	4.65
Rush	64.7	68.1	5.3	4.1	4.3	3.0	6.40	6.26	1.6	2.7	3.98	-1.0	4.02
Saint Joseph	587.9	624.6	6.3	64.5	69.2	7.2	10.98	11.08	13.8	55.3	8.86	0.8	8.79
Scott	34.6	37.7	8.7	3.0	3.2	7.3	8.52	8.41	0.6	2.5	6.73	-3.9	7.00
Shelby	107.7	115.8	7.5	8.4	8.7	4.6	7.75	7.55	1.8	7.0	6.04	-2.6	6.20
Spencer	48.1	54.6	13.3	3.0	3.2	8.1	6.23	5.95	0.7	2.6	4.75	-4.8	4.99
Starke	56.2	59.6	6.1	3.9	3.9	0.0	7.00	6.60	1.2	2.7	4.55	-5.8	4.83
Steuben	79.5	81.8	2.9	4.9	5.5	11.1	6.22	6.72	2.1	3.4	4.11	10.2	3.73
Sullivan	61.1	61.8	1.3	4.3	4.4	3.0	6.97	7.08	0.9	3.5	5.67	1.6	5.58
Switzerland	17.2	17.8	3.1	1.4	1.4	4.5	7.90	8.01	0.3	1.1	6.40	1.3	6.32
Tippecanoe	332.2	358.9	8.0	29.4	30.3	2.9	8.86	8.44	6.0	24.2	6.75	-4.8	7.09
Tipton	57.9	61.6	6.4	3.8	3.7	-3.0	6.55	5.97	1.7	2.0	3.23	-15.0	3.80
Union	18.2	19.5	6.9	1.1	1.2	4.7	6.17	6.05	0.5	0.7	3.50	1.2	3.46
Vanderburgh	408.8	428.3	4.8	41.2	44.4	7.8	10.08	10.37	8.9	35.5	8.30	3.0	8.06
Vermillion	85.3	90.2	5.8	5.6	5.4	-2.2	6.53	6.04	1.1	4.4	4.83	-7.7	5.23
Vigo	247.6	253.9	2.6	29.3	30.5	4.2	11.83	12.02	6.1	24.4	9.61	1.5	9.47
Wabash	100.3	106.8	6.5	6.7	7.1	5.4	6.68	6.61	3.2	3.9	3.64	-0.3	3.65
Warren	36.6	39.0	6.6	2.6	2.7	2.9	7.07	6.82	0.9	1.8	4.60	-5.7	4.88
Warrick	186.9	201.8	8.0	10.9	11.7	6.7	5.85	5.78	2.3	9.3	4.62	-1.3	4.68
Washington	46.3	49.0	5.8	2.8	3.1	7.8	6.11	6.23	1.0	2.1	4.22	3.4	4.08
Wayne	210.3	220.9	5.0	17.1	17.6	2.9	8.11	7.94	7.1	10.5	4.74	-1.5	4.81
Wells	82.6	86.9	5.2	5.7	6.1	5.5	6.96	6.97	1.9	4.1	4.76	0.6	4.73
White	97.5	103.5	6.1	6.3	6.5	4.5	6.42	6.32	2.6	3.9	3.79	-0.5	3.81
Whitley	76.6	82.3	7.5	5.2	5.5	4.9	6.84	6.68	1.1	4.4	5.34	-2.6	5.48
Indiana	**15,171.5**	**15,948.2**	**5.1**	**1,416.7**	**1,491.2**	**5.3**	**9.34**	**9.35**	**355.2**	**1,136.0**	**7.12**	**0.14**	**7.11**

Chart prepared by Glenn D. Bowman from data provided by the Indiana State Board of Tax Commissioners

income tax rate, from 2% to 1.9%, in subsequent years. The unique plight of the retired and elderly was specifically recognized in legislation that compensated for utility costs and liberalized property tax deductions. Indiana's inheritance tax was amended to eliminate any tax in a transfer between spouses.

No Constitutional Tax Amendments Supported

It is significant that the 1979 Indiana General Assembly did not act upon any resolutions of the Proposition 13 variety.

Nine joint resolutions dealing with tax and spending limitations were presented. Of these, five spoke to the problem of federal spending and called for balancing the federal budget. Only one was enacted: S.J.R. 8 requested Congress to call a Constitutional Convention to propose an amendment to the U.S. Constitution that would require a balanced federal budget in the absence of a national emergency.

The four resolutions dealing with state and local taxation proposed several alternatives: a three-fifths vote of each house of Indiana's legislature in order to impose any new taxes or any increase in current taxes; a limitation on the growth of state expenditures based on the rate of growth of the state's economy; a requirement for voter approval for any state or local tax increases; and finally a limitation on state spending determined in relation to a given percent of personal income. None of these resolutions was reported out of committee. Clearly, there was little sentiment among the members of the 1979 Indiana General Assembly to support any type of limitation similar to California's Proposition 13.

Public Opinion Surveys Show Significant Change in Tax Attitudes

The emphasis placed by Indiana legislators on the issue of a balanced federal budget is consistent with public opinion surveys taken following the successful implementation of a property tax relief program. Proposition 13 dramatically reduced the California property tax burden, as the 1973 Indiana tax changes dramatically reduced the Indiana property tax burden. In July of this year, at the National Conference of State Legislators, John Shannon, Assistant Director, Advisory Commission on Intergovernmental Relations, discussed the latest ACIR public opinion poll concerning taxation. To the surprise of many, the public, in California and throughout the U.S., no longer view the property tax as the worst and most onerous tax. Instead, popular opinion now ranks the federal income tax as the most detrimental and undesirable tax burden.

While the property tax burden has been curtailed in California and in other states that have adopted tax limitations, the federal income tax continues to heap ever harsher burdens on individual taxpayers. Soaring inflation pushes taxpayers into higher brackets because of the steeply graduated federal income tax schedule. These unlegislated tax increases have compounded the budgetary problems of the average family that must also cope with the rapidly rising cost of living.

The frustrations resulting from these problems strongly surfaced in the Indiana General Assembly during 1979 and far overshadowed any concern for new limitations on state and local taxation and spending. Accordingly, Indiana has now joined with more than thirty other states in appealing to Congress to reduce the federal tax burden and balance the federal budget.

Federal Revenue Sharing's Future Uncertain

It is important to note, as public attitudes have changed, that the property tax and federal income tax problems are not totally unrelated. The solutions to these problems cannot be handled in isolation as though the two matters

were mutually exclusive. In California, and probably to a greater extent in Indiana, the success of property tax relief has been to a significant degree dependent upon the availability of federal revenue sharing dollars for state and local expenditures.

The current federal revenue sharing program is scheduled to expire in September 1980. If Congress, in an effort to balance the federal budget and reduce the federal income tax, would vote to eliminate or substantially curtail the federal revenue sharing program, then Indiana, California and many other states implementing tax and spending limitation programs would be faced with difficult decisions. One of the options would be to return to the property tax for a greater share of the costs of local government.

In addition to these uncertainties at the federal level, it is reasonable to anticipate renewed efforts in the future to make other major modifications in the Indiana tax structure. Although the existing property tax relief and control mechanism is very effective and has the potential of long-term existence, the program places an increasingly greater dependence on state funding for direct tax relief and for local governmental services. Many fiscal experts believe that an effort should be made to prevent any further centralization of fiscal power in Indiana at the state level.

Anticipate New Major Tax Changes in Indiana

Numerous other factors that might precipitate further major tax revisions in Indiana can be identified. Inequities continue to exist in Indiana's state and local taxation scheme. Reformers persist in efforts to bring about the changes necessary to solve clearly identified problems. The tax and spending limitation movement has supporters in Indiana, and as the nationally organized tax reduction movement continues, renewed interest is likely to surface in the state. As Shannon pointed out, inflation not only affects income tax burdens, it also exacerbates several perennial property tax conflicts that have received exhaustive attention in Indiana in the past.

One of these conflicts concerns the amount of authority that will be vested at the state level to monitor and standardize local assessment practices. Another conflict involves the uniformity provisions of the Indiana Constitution. Dramatic increases in residential property values have caused new pressures on legislatures to deviate from a uniform property tax system and provide preferential treatment to residential taxpayers through a classified property tax system. Local taxpayers' insistence that property tax increases be held down produces yet another conflict when local public employees and officials demand salary increases commensurate with inflationary trends and private sector gains. With no immediate end in sight to the inflationary spiral, these major areas of property tax conflict will continue to be thrust upon the Indiana legislature with increasing intensity.

III. HOW SHOULD INDIANA'S BUSINESSES APPROACH TAX LIMITATION?

Consideration of the future raises the third major query of this article, How should the Indiana business community approach the tax limitation issue? At the outset, it is possible to identify at least three courses of action that would be immediately appropriate and desirable. In addition to these recommended responses, there may be numerous others that would be equally productive and beneficial. One hopes they will surface in the near future as the tax reduction movement continues to gather momentum nationally and in Indiana. Meanwhile, early action on the three suggestions listed here can be extremely significant and constructive in helping to shape the outcome of future tax and fiscal decisions.

1. Attempt to understand the popular sentiment underlying Proposition 13.

Despite the historical stereotypes of political philosophies and parties, evidence indicates that the supporters of tax limitation do not neatly fall into the category of conservative or liberal, nor can they be aligned politically with either the Republican Party or the Democratic Party.

If liberal programs have failed to fulfill their promise, rejection of those programs does not necessarily imply a repudiation of the belief that it is the primary responsibility of government, rather than of the private sector, to assist those in need. By the same token, it would appear that popular sentiment does not necessarily attribute fiscal conservatism to either major political party. Current governmental procedures and mechanisms contain a pro-spending bias that has generally dominated budgetary and fiscal policy decisions regardless of which political party has been in power.

Seymour Martin Lipset and Earl Raab give impressive substantiation to these broad generalizations in a scholarly analysis of Proposition 13, published in *Commentary Magazine* in September 1978, that can be summarized as follows:

> The authors, who conducted an exhaustive analysis of public opinion polls from the 1940s through the present day, conclude that the current tax revolt movement can be characterized neither as a selfish repudiation of liberalism nor as a support for right-wing concepts. They did find that American people generally subscribe to the conviction that government is too big, inefficient and wasteful and, accordingly, most Americans consider themselves conservatives.
>
> At the same time, the majority of the American people support government programs to help the poor and the elderly, to promote education and to create jobs. Popular opinion overwhelmingly opposes welfare, but it simultaneously supports innumerable programs designed to assist the poor. In essence, the position is one of rejecting the historical welfare state concept while supporting governmental assistance for those in need, placing primary emphasis on "helping people help themselves." This attitude has been described as a combination of "ideological conservatism" and "operational liberalism," carrying the labels of either "neoconservatism" or "neoliberalism," depending on personal preference.

This situation offers the business community an excellent opportunity to speak out about the tremendous benefits currently being provided through the American private enterprise system and to point to the great potential for improved well-being of the American people by further expansion of the private sector. This opportunity carries with it a corresponding challenge for business to become increasingly active in helping to solve community problems within the context of the private enterprise system.

2. Participate in the dialogue.

The issues of tax and spending limitations are highly complex and they defy simplistic solutions. The greatest weakness of California's Proposition 13 is that it is an over-simplified partial solution to the multifaceted problem of limiting total governmental spending and taxation. The ideal approach would take into account simultaneously the tax reduction desired; the revenue replacement needs; and the budgetary and structural reforms that would result in greater governmental efficiency and economy.

The complexities of the problem are equally apparent in viewing the issues of federal taxation and spending. Balancing the federal budget might not prove to be the panacea to permanently cure excessive federal spending.

At a given moment in American history, balancing the federal budget could preclude the enactment of a federal tax cut. The resulting limitation on federal spending could seriously impair the federal government's power to stimulate the economy during a recessionary cycle. There is no easy answer to the question of whether a balanced budget is preferable to a tax cut, or whether a tax cut would be better or worse for the economy than a balanced federal budget.

The business community has much at stake in the answers to these questions. Its talent and expertise could be immensely helpful to governmental officials as they grapple with these complex issues. Corporate leaders would be well advised to encourage their economists, statisticians, and other fiscal experts to provide assistance to governmental officials. The ultimate decisions on tax and spending limitation questions will directly affect the future viability of the American private enterprise system.

3. Renew efforts in economic education.

One can easily understand why many business leaders in California did not support the adoption of Proposition 13. They clearly foresaw the backlash that would occur and the attacks that business would endure from great numbers of people who harbor misconceptions and biases concerning business taxation.

Commercial and industrial property owners pay a substantial portion of total property tax collections. Both in California and in Indiana, the property tax reduction shared by business has been aggressively attacked as though it were in some fashion detrimental to the individual taxpayer. The unenlightened popular bias views the corporate taxpayer as a separate and distinct entity competing for tax relief. This myth, and all of the oratory based upon it, overlooks the fundamental fact that a corporation does not possess the power to remove the tax burden from the American public. And to the extent that the tax burden is concealed from the American public by being indirectly collected through the corporate structure, it results in the most capricious and regressively harmful form of taxation imposed on the American people.

More than a decade ago the Tax Foundation published a report issued by a congressional committee that focused on business taxation. The report asserted: "The need for rethinking tax attitudes, and for revising tax practices, is nowhere more compelling than in the taxation of business. The taxes collected from business are, in reality, concealed taxes taking money from consumers, investors and employees."

Today's attitudes toward business demonstrate an imperative need to educate the American people concerning the economic realities of business taxation. Encouraging signs can be found in legislation adopted at both the federal and state levels providing business tax incentives to stimulate capital investment. Nevertheless, the threats arising from the continued growth of the tax limitation movement demand renewed efforts on the part of business to help the American public understand business taxation.

The Homestead Credit: Indiana's Response to the Reassessment Problem

JOHN E. KOPPIN

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Since its inception in 1973, Indiana's property tax relief system has been a significant political and public policy program. According to an Indiana State Chamber of Commerce *Special Report,* the program can account for direct statewide property tax rate reductions of $5.61 per $100 of assessed valuation over its five-year life. Estimates show that the average statewide property tax rate by 1978, assuming a 4.8% annual growth, would have been $12.72 without the control program. The **actual** average statewide property tax rate was $9.38 per $100 of assessed valuation in 1978. The 20% property tax replacement credits reduced this average rate to $7.11 per $100 of assessed valuation. In 1978 alone, $286.6 million was paid by the State of Indiana in property tax relief†. Though the wisdom of state fiscal controls on local governments has been hotly debated since 1973, the current anti-property-tax mood of voters forced even opponents of the system to seek a short-term continuation of the property tax relief system. Despite this support, the program faced several major problems during the 1979 session of the Indiana General Assembly. Of these problems, the most serious by far was the impact of reassessment on the tax-relief program.

REASSESSMENT

The purpose of reassessment is to raise real property values to current levels. In Indiana, personal property is assessed annually, but real property is assessed only periodically. During the periods between real property reassessments, personal property gradually accounts for a larger share of the tax base than does real property. The business sector, the major holder of personal property, assumes a greater share of the tax levy as personal property accounts for an increased share of the total assessed valuation. When reassessment occurs, the property tax base is balanced again, and real property (primarily residential and farm property) contributes its share of the tax liability. Under Indiana's current property tax levy freeze, the effect of this rebalancing is to increase the amount of tax paid by real property owners while decreasing the amount of tax paid by personal property owners.

The last reassessment to take place in Indiana occurred in 1969. At that time real property was figured at 1967 values. As of 1978, therefore, the values for homes and farms on the assessors' books were over ten years old. A current reassessment would rebalance the tax base, reducing substantially the tax liability for businesses but increasing the share of assessed

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†Indiana State Chamber of Commerce, *Special Report,* September 1978. p. 1.

valuation, and consequently the tax liability, for homeowners and farmers.

Table 1 shows the 1978 statewide property tax base mix before reassessment. The business sector's share of the total assessed valuation is 54%, the residential sector's share is 29.9%, and the farm sector's share is 15.7%. Indiana's property tax relief program was established on a tax base similar to this. As the new assessments were examined, the problems for the relief program became clear.

As a result of the reassessment, the base on which the property tax relief program was functioning would undergo a dramatic change. Table 1 shows the shift in the percentage of the tax base in the three sectors. The statewide ratio of business assessed valuation to total assessed valuation would drop by 6.6% after reassessment, the ratio for farms would increase by 2.6%, and the ratio for residential property would increase by 4%. The significance of this shift would be seen in the percentage change of total tax levy for each sector. Tax bills for the residential sector would increase by 13.3% and those for farmers would increase by 16.3%. Property taxes for businesses, however, would decrease by 12%. These changes are significant for a system that promised homeowners little, if any, increase in property taxes due to reassessment.

The shift was not recognized as an important factor until after the 1978 legislative session. Legislators had erroneously assumed that existing strict levy controls on local taxing units would prevent reassessment from significantly changing individual property tax bills. Full appreciation for the effect of the change in the property tax base mix came during the summer and fall of 1978. Analysis showed that residential assessments and, therefore, property taxes would increase substantially as a result of reassessment. In the aftermath of California's Proposition 13, political ramifications of large property tax increases for homeowners threatened to be severe. Such increased taxes would undoubtedly discredit the property tax relief program and would perhaps evoke a political revolt similar to those in other states. In the fall of 1978, the State Budget Agency, the State Board of Tax Commissioners, and staff from the Governor's Office began to seek a solution to the reassessment problem.

FIVE ALTERNATIVES

The search for a solution began with a discussion of five major possibilities: 1) an indefinite delay of reassessment; 2) the enactment of a homestead exemption based on either the assessed valuation or a flat percentage rate; 3) a ceiling on the percentage increase in the assessed value of real property; 4) a graduated credit or exemption based on the property tax liability; and 5) implementation of reassessment in steps. Each of these alternatives had merit, but each also had problems.

Delaying reassessment, which had already been done in two previous legislative sessions, seemed a logical choice. An unlikely advocate

TABLE 1

Statewide Assessed Valuation

	Before Reassessment	*Percent*	*After Reassessment*	*Percent*
Residential	$ 4,565M	29.9	$ 7,407M	33.9
Farm	2,393M	15.7	4,002M	18.3
Business	8,290M	54.4	10,462M	47.8
TOTAL	$15,248M	100.0	$21,871M	100.0

of this alternative was the business community. Though business would realize the largest immediate gain from reassessment, its long-term interest would be to keep property tax rates low and controlled. Because the property tax relief program had demonstrated its ability to keep rates low and controlled, the business sector wanted to preserve the program at all costs, and consequently shunned the other alternatives in favor of delay. Financial leaders in both the House and the Senate believed that to delay implementation of the reassessment a third time would only fuel criticism that they were "ducking the question." Delay would also exacerbate the problem because the gap between real and personal property values would grow. For these reasons, reassessment delay was dropped from the options list.

The homestead exemption alternative would permanently reduce the assessed valuation for each homestead by 20%. This reduction would eliminate the effect of reassessment for homeowners only, thus solving the reassessment problem at no cost to the state. Under this plan, the tax liability for a house assessed at $20,000 would be calculated at the assessed value less 20%, or $16,000. This plan had been submitted in the 1978 session as a 30% exemption and was thought to have a good chance at passage. There were, however, two major flaws in the plan. Though the plan would cost the state nothing, other contributors to the property tax base, farms and businesses, would have to bear the cost of the homestead exemption. The probable unwillingness of these groups to accept this tax burden was a major stumbling block for this approach. Researchers were equally concerned about the questionable constitutionality of the exemption. They believed that a law based on homestead exemption would clearly violate the constitutional mandate for uniformity in property assessments. The great controversy over the homestead exemption might well force the question to court someday, and any law granting homestead exemption would be ruled unconstitutional.

The third option was a ceiling on the percentage increase in assessed valuation of all real property, thereby insuring that no tax liability would increase above a predetermined level. Researchers again discovered several problems.

A ceiling limit would cause a tax windfall for owners of newer homes whose assessed valuation would increase the most under reassessment. In addition, the ceiling would penalize municipal units by limiting their bonding authority and by limiting the increase in their property tax levies allowed under the 1977 control program. Since the level of local bonding authority is limited to 2% of assessed valuation, the amount of bonding available to existing municipal units would probably be curtailed under either the homestead exemption or the ceiling plan. Local government was also concerned that if the property tax control program were to remain unchanged, nonadopting counties (who were entitled to increase their property tax levies at the same percentage as the increase of their assessed valuation) would not be able to take advantage of the large reassessment increase. These factors made the assessed valuation increase ceiling an alternative that was difficult to defend or to implement.

The fourth alternative was a graduated credit or exemption based on the actual property tax liability. Under this option, property tax exemptions or credits would be extended to homeowners on the basis of the actual property tax figures as soon as they were made available. This plan was dismissed because the level of funding sufficient to eliminate the effect of reassessment would make the program too expensive.

The final option was implementation of reassessment in stages, thus eliminating the shock effect of a one-year implementation. The primary roadblock to this plan was the sched-

TABLE 2

Statewide Effect of the
20% Homestead Deduction

	Before Reassessment	*Percent*	*After Reassessment*	*Percent*	*With 20% Deduction*	*Percent*
Residential	$ 4,565M	29.9	$ 7,407M	33.9	$ 5,807M	28.7
Farm	2,393M	15.7	4,002M	18.3	4,002M	19.7
Business	8,290M	54.4	10,462M	47.8	10,462M	51.6
TOTAL	$15,248M	100.0	$21,271M	100.0	$20,271M	100.0

uled date of the next reassessment, 1986. In order to have the 1979 assessments in place before 1986, annual real property tax increases would be large enough to cause concern. Also, colossal administrative problems would result if assessments were changed every year.

HOMESTEAD DEDUCTION

Based on these alternatives and the data available, a plan for a permanent 20% homestead deduction, to become effective in 1980, was introduced in the House of Representatives as part of the 1979 tax package. The bill was assigned to the Ways and Means Committee and ran into great difficulty there among the members from farm districts. They felt that the bill was too hard on farmers, and refused to support it. Table 2 shows the impact of the 20% homestead deduction on farms.

On a statewide basis, the 20% homestead deduction would cause an increase 1.4% above the reassessment increase of 2.6% in the farm percentage share of the property tax base while causing a decrease 5.2% below the reassessment level in the residential share. This change in reassessment indicated more significant changes in the amount of tax liability to which farm and residential taxpayers would be subject. Table 3 shows the shift in tax burden.

The table indicates that after reassessment homeowners and farmers could expect to see property tax increases of 13.3% and 16.3%. Business property tax liability would decline by 12% as a share of the total levy. The ramifications of the homestead deduction on the tax liability of the three groups is likewise significant.

As result of the homestead deduction, real property taxes for farms would rise 25.8%, the tax levy on business property would drop by 5%, and taxes on residential property would drop by 4.4%. Figures from Grant County, which was frequently used as an example during the planning stages, showed a 15.6% increase in farm property taxes, a 9.9% drop in

TABLE 3

Statewide Tax Levy

	Before Reassessment	*After Reassessment*	*Percent Change*	*With 20% Deduction*	*Percent Change*
Residential	$ 339M	$ 384M	13.3	$ 324M	(4.4)
Farm	178M	207M	16.3	224M	25.8
Business	616M	542M	(12.0)	585M	(5.0)
TOTAL	$1,133M	$1,133M		$1,133M	

business property taxes, and an increase of only 4% in homeowners' property taxes. In effect, the deduction for homeowners meant that most of the tax increase for the residential sector would be passed on to the farm sector and, to a lesser degree, to the business sector. The objection to the proposal by farm supporters in the House threatened to defeat the bill in Committee, and it became apparent that another solution would have to be found to correct the problem.

HOMESTEAD CREDIT

As House and Senate leaders viewed the problem, the next logical alternative to the deduction approach was a property tax credit. The credit was superior to the deduction because it decreased the tax liability to homeowners, but it did not penalize the farmer or businessman. As a credit, the reduction in residential tax liability would have to come from state funds. The plan's high price tag seemed an insurmountable problem.

The obvious source for the credit funds was the Property Tax Relief Fund. Yet with the projected two-year surplus at only $340.3 million for the fund, there were not sufficient monies available for a 10% homestead credit and the 2% increase in property tax relief also promised in the 1979 tax package. A 10% reduction in tax liability to homeowners through a credit would cost $52.3 million each year, while the 2% across-the-board increase would cost $149 million annually. Obviously the PTRF could not sustain the cost of the homestead credit alone at a 10% level for a long period of time. Funding both programs was out of the question.

The solution to the cost problem was a five-year phaseout of the homestead credit that would begin in 1980, the first effective year of the reassessment. The plan threw out completely the 2% increase in property tax relief credits and substituted, for homeowners only, a 10% credit in addition to the existing 20% credit paid to all property taxpayers. The homestead credit would be reduced 2% per year until the credit was back to the original 20% level. Analysts anticipate that the assumed increase in individual property tax liabilities resulting from the 2% phaseout of the credit would be offset by natural increases in the growth in assessed valuations. With increases in assessments for personal property and real property improvements running at just over 4%, present homeowners would see only small increases in their property tax bills.

The phaseout would reduce the cost of the program from an estimated $261.5 million to $156.9 million, an acceptable level. The phaseout would virtually eliminate the shift in tax burden to the homeowner. Table 4 shows the effect of the 30% credit (10% homestead + 20% PTR).

As the table indicates, under the 30% homestead credit, the assessed valuation ratios would remain the same. For this reason, the tax liabilities for the farm and business sectors would not change. The property tax liability for the residential sector would decline by 14.5% from the reassessment level. This reduction would be absorbed by the increase in state property tax relief.

Through this long process of analysis and negotiation, and by using the PTRF as the source of additional property tax relief for homeowners, the Legislature developed a plan acceptable to most taxpayers. After months of effort, the homestead credit was adopted as the best solution to the complex problems caused by the 1979 general reassessment. Because of variables between counties, the true effectiveness of the homestead credit will be known only after the tax bills are mailed. If the data studies are to be trusted, the General Assembly has substantially defused the reassessment bomb by passing the homestead credit, and has made the future of the Property Tax Relief system more secure.

TABLE 4
Assessed Valuation

	After Reassessment	*Percent*	*With 30% Credit*	*Percent*
Residential	$ 7,407M	33.9	$ 7,407M	33.9
Farm	4,002M	18.3	4,002M	18.3
Business	10,462M	47.8	10,462M	47.9
TOTAL	$21,871M	100.0	$21,871M	100.0

Tax Levy

	After Reassessment	*Percent Change From Prior Reassessment*	*With 30% Credit*	*Percent Change From Before Reassessment*
Residential	$ 384M	13.3	$ 335M	(1.2)
Farm	207M	16.3	207M	16.3
Business	542M	(12.0)	542M	(12.0)
PT Relief	283M		332M	
TOTAL	$1,416M		$1,416M	

Property Tax Controls: The Third Generation

SCOTT S. LLOYD

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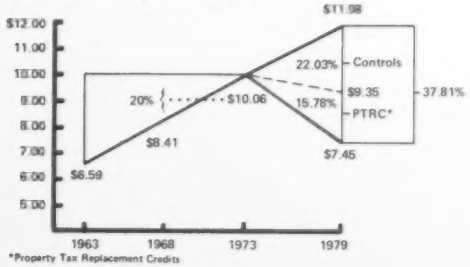
In 1973 Governor Otis R. Bowen unveiled a program that promised to offer visible, substantial and lasting property tax relief to Hoosier taxpayers. Since 1973 the program has caused the statewide property tax rate to drop from $10.06 to $7.45, as shown in the figure below, and has given rebates, totaling $1,618,797,825.00, to property owners in the form of a property tax credit. The program is not only visible and substantial, but also highly popular.

The concepts behind the control package have displayed remarkable durability. Even though the 1977 and 1979 General Assemblies modified the program extensively, the concept of controlling expenditures by restricting local governments' abilities to raise revenue through property taxes remains unchanged. What has changed is the way that tax levy restrictions are calculated. This article describes the three generations of controls that have existed since 1973.

Property Tax Relief Achieved by 1973 Tax Package (as amended in 1977 and 1979) as Indicated by Statewide Average Property Tax Rates[1]



[1]SOURCE: Donald W. Kiefer, "The Tax Package After Three Years" *Indiana Business Review*, Volume 51, Sept.-Oct.,1976, updated with information on 1978-79 property tax valuations, levies, and rates as supplied by the Indiana State Boardof Tax Commissioners.

NOTE: The views expressed in this article are those of the author and are not necessarily those of the Indiana Commission on State Tax and Financing Policy or of its members.

Originally, the legislature froze all school property tax levies[2] at their 1973 dollar amount. Increases in school operating revenues came from increases in the state school aid formula. The 1973 General Assembly also allowed counties to adopt a local income tax. If a county adopted the local income tax, the property tax levies for the non-school units within that county were frozen at the 1973 dollar amount. Counties that did not adopt the income tax operated under frozen property tax rates instead of frozen property tax levies. In adopting counties increased operating revenues came from income tax dollars, and in non-adopting counties increased revenues came from applying the tax rate to new and increased property valuations.

In 1977, the General Assembly made a major modification in the way the controlled tax levies were calculated. School levies were still frozen at the 1973 level, but there was no longer the frozen rate/frozen levy distinction among civil units. All civil units' tax levies that included both property and income (if any) taxes would be allowed to increase to 5% in 1978, 8% in 1979, but not at all in 1980. This

[2] **Levies** are the funds raised by applying the property tax **rate** to the **assessed value** of property.

action assured that the 1979 session would have to take a close look at the nature of the property tax control program in Indiana.

These second generation controls were necessary because of the pending implementation of the revaluation or reassessment of property that was scheduled to become effective in 1979. Under the original set of controls the tax rate of units in adopting counties would fall as the result of a reassessment, (with the tax levy frozen, when the valuation rises the rate must drop). Units in non-adopting counties, on the other hand, would be allowed to apply their frozen tax rate to the increased value and thus be able to generate a large increase in total property tax dollars. This situation would exist only in years in which a general reassessment would take effect.

Power in the 1977 General Assembly was split between the two major political parties. The second generation of property tax controls finally worked out was, therefore, clearly a political compromise. The new controls intentionally included mechanisms that would force the 1979 General Assembly to review the entire concept of property tax controls. Two major features were built in to insure the review. First, the 1980 tax levies could not be larger than the 1979 tax levies. In a high-inflation economy this limit was not realistic. Second, if local government units survived a zero increase in their 1980 budgets, then the budgets thereafter would revert to the frozen rate/frozen levy system characteristic of the first generation of controls.

The mechanisms designed to insure a review of the entire concept of tax controls by the 1979 General Assembly worked. The Republicans regained control of both Houses insuring that the Governor's pledge of lasting property tax control would continue to be met. When the 1979 General Assembly convened, it had two things on its mind. First, the passage of Proposition 13 in California and the resulting wave of taxpayer, especially property taxpayer, resentment made the continuation of some form of property tax controls a political necessity. Second, the reassessment notices were about to be sent out, thus focusing more attention upon the property tax issue.

The first major question that had to be resolved was how much to allow local tax levies to increase. Instead of dictating a flat percentage, similar to the 5% and 8%, that must be used, the legislature allowed units to use a three-year average in their growth of assessed value as their tax-levy growth rate. In addition, for slow-growing units, the legislature guaranteed that if the unit's growth rate was below the average statewide assessed value growth rate, the statewide figure of 4.56% could be used instead. On the other hand, fast-growing units could not increase their levies by more than twice the statewide average, or 9.12%.

The legislature has always been concerned that only thirty-seven of the state's ninety-two counties have adopted the local income tax. The second generation of property tax controls had included all of the local option income tax revenues as offsets to the property tax levies. This third generation of controls makes adoption of the local income tax more attractive. The legislators allowed revenues in excess of the 1979 receipts that were generated by this tax to be outside the controlled levies, thus giving adopting units more revenue potential.

Another problem for the 1979 General Assembly surfaced. The effective date for use of reassessed values had been delayed once again, until 1980. Revaluation causes property values to rise, but some classes of property increase faster than others. Initial analysis indicated that agricultural property increased in value 77.8% but residential property averaged only a 54.9% increase in value. Initially, the differences in property value increases caused little concern, because the controls limit total expenditures, and no matter how high assessment levels rose, the tax rate would drop to adjust. This works in the aggregate, but reassessment would cause a shift in the property tax burden between classes of property. A govern-

mental unit's tax dollars are limited and based upon the value of each property within the unit. If each type of property went up the same proportion in value, then each property would pay the same proportion in taxes both before and after the new valuation went into effect.

Since the value of agricultural land rose more than that of other types of property, owners of agricultural properties had a greater proportion of the unit's total assessed value and thus a greater portion of the tax liability was shifted to agricultural properties. The owners of real and personal business property, on the other hand, had a lesser percentage of total assessed value and thus reduced tax liabilities. (Personal property is assessed annually. Unlike real property, which was last assessed in 1969 and has one large jump in value, personal property increases in value in smaller yearly steps. Each year personal property becomes a larger percentage of the total assessed value. Then in the year of a general revaluation it drops in its proportion back to a valuation basis equal to real property.)

The 1979 General Assembly, which was faced with how to deal with the tax shift between groups of property taxpayers, agreed to the complex proposal known as the Homestead Credit (or the Vanishing Homestead Credit). Basically, each owner-occupied home, including one-acre farm homesteads, will be eligible in 1980 for a 10% property tax relief credit in addition to the existing 20% tax credit. This credit will be reduced by 2% each year until 1985, when it vanishes. The intent is to cushion homeowners from the shifting effects of the property tax liabilities. The credit declines each year because new assessed value will become taxable each year and thus lessen the burden on existing residential properties. The credit is scheduled to expire in the same year as the next scheduled reassessment is to come into effect.

Through July, 1981, the Homestead Credit will return an additional $70,930,000 directly to homeowners in the form of additional property tax relief. The Homestead Credit, however, has turned out to be an administrative headache for the county assessors, who must identify each "owner-occupied" property, and for the auditors, who must calculate the additional tax credit on each tax bill. The assessors' and auditors' problems became so severe that Governor Bowen had to extend the filing deadline by executive order.

The 1979 General Assembly did not ignore the rising costs of local education. In 1973, about 45% of all local non-debt school costs were provided for by the state distribution formulas. By 1979, that percentage had risen to 65%. The legislature felt that this was an appropriate mix of local/state funds and slightly loosened the controls on school levies. Under the new controls, if a school district's enrollment is declining, the general fund tax levy remains at the 1979 level. If enrollment is increasing, the general fund levy may increase at the same rate in this district. The tax rate may be increased an additional 2½¢ or 5¢ each year to help handle rising costs. All debt service funds and the newly created transportation fund are outside the controlled levies. The removal of transportation costs to a fund outside the controlled levy not only helps, in part, to insulate school districts from rising energy costs but also releases for other uses general fund dollars that had been used previously in the transportation budget.

The third property tax control generation as it now stands should be able to operate for several years without revision. The controls can even take into account the next reassessment, scheduled to be implemented in 1985. In the future there will be changes made in the controls because the composition of the General Assembly will change. But the concept of property tax controls is so popular and so generally accepted by everyone in the state that the commitment made in 1973 to make the controls visible, substantial and especially, lasting has been kept and will undoubtedly continue to be kept for some time to come.